AMERENCIPS/UE EXHIBIT NO. 17.0

**ILLINOIS COMMERCE COMMISSION**

**DOCKET NOS. 02-0798/03-0008/03-0009 (Consolidated)**

# REBUTTAL TESTIMONY

**OF**

**NAGENDRA SUBBAKRISHNA**

**Submitted On Behalf**

**Of**

**CENTRAL ILLINOIS PUBLIC SERVICE COMPANY**

**d/b/a AmerenCIPS**

**and**

**UNION ELECTRIC COMPANY**

**d/b/a AmerenUE**

**May, 2003**

## TABLE OF CONTENTS

**ILLINOIS COMMERCE COMMISSION**

**DOCKET NOS. 02-0798/03-0008/03-0009 (Consolidated)**

**REBUTTAL TESTIMONY OF**

**NAGENDRA SUBBAKRISHNA**

**SUBMITTED ON BEHALF OF**

**CENTRAL ILLINOIS PUBLIC SERVICE COMPANY**

**d/b/a AmerenCIPS**

**and**

**UNION ELECTRIC COMPANY**

**d/b/a AmerenUE**

**Q. Please state your name and business address.**

**A.** My name is Nagendra Subbakrishna. My business address is 1717 Arch Street, Suite 3610, Philadelphia, PA 19103-2713.

**Q. Are you the same Nagendra Subbakrishna who filed direct testimony in this proceeding?**

**A.** Yes, I am.

**Q. What is the purpose of your rebuttal testimony?**

**A.** For both Union Electric Company ("AmerenUE" or "UE") and Central Illinois Public Service Company ("AmerenCIPS" or "CIPS"), the purpose of my rebuttal testimony is to respond to issues relating to cash working capital and materials and supplies inventories raised by the Staff of the Illinois Commerce Commission ("Staff") as well as issues raised by the People of the State of Illinois/Attorney General's Office

("AG") in their direct testimony in this proceeding. My rebuttal testimony also presents revisions to the analysis included in my direct testimony. The revisions result in a cash working capital requirement for AmerenCIPS of $7.386 million compared with the $8.558 million as originally filed. For AmerenUE, the revisions result in a revised cash working capital requirement of $0.840 million compared with the $0.928 million as originally filed. The revisions to the cash working capital requirements take into account the issues raised by Staff and the AG in their direct testimony and are presented in order to assist the Illinois Commerce Commission ("Commission") in making an informed decision relating to the cash working capital requirements of the Companies (i.e., AmerenUE and AmerenCIPS). The adjustments discussed in my rebuttal testimony concerning cash working capital and materials and supplies inventories are included in the calculation of a revised rate base amount for the Companies as shown on Company witness Thomas G. Opich's schedules AmerenCIPS Exhibit No. 14.6 and AmerenUE Exhibit No. 14.6.

**Q. Are you sponsoring any exhibits?**

**A.** Yes. I am sponsoring AmerenCIPS Exhibit Nos. 17.1 and 17.2, AmerenUE Exhibit Nos. 17.1 and 17.2, and AmerenCIPS/UE Exhibit Nos. 17.1 through 17.4.

**Q. Has Staff proposed adjustments to the cash working capital requirements proposed by AmerenCIPS and AmerenUE?**

**A.** Yes. Staff recommends that a zero cash working capital requirement be approved by the Commission for both AmerenUE and AmerenCIPS based on their contention that there are "multiple flaws" in the Companies' studies. (page 3, line 52, ICC Staff Exhibit 3.0). A listing of the purported flaws as identified by Staff is provided below:

1. improper reflection of all operating revenues in the determination of cash working capital;
2. unnecessary inclusion of a separate lag for purchased gas adjustment ("PGA") revenues;
3. improper lags included in the PGA calculation, an issue also raised by the AG witness;
4. improper inclusion of fuel costs;
5. improper cash items included as other operations and maintenance expenses;
6. improper inclusion of non-Illinois property in real estate calculation and improper inclusion of more than one year of taxes for some parcels of property;
7. inappropriate inclusion of float for payroll;
8. inconsistent application of the mid-point theory;
9. inappropriate application of the obligation date theory; and
10. lack of recognition of the service company involvement with cash flow.

Despite acknowledgement that most of the "flaws" were minor, Staff did not offer a corrected analysis or a quantification of its concerns.

**Q. Are there adjustments that the Companies will not oppose?**

**A.** Yes. The Companies have made the following revisions to its lead-lag/cash working capital requirements analyses to address Staff's concerns:

a) the Companies have utilized a net lag approach;

b) the Companies have excluded uncollectibles expense from other operations and maintenance expenses;

c) the Companies have excluded the amortization of rate case expenses from other operations and maintenance expenses;

d) the Companies have excluded float on payroll;

e) the Companies have revised the calculation of the expense lead-time associated with real estate taxes, and the group health – administration and group life components of pensions and benefits, using a mid-point approach, and did not include more than one year of data on real estate and corporation franchise taxes; and,

f) the Companies have revised the expense lead-times associated with ICC Gas Revenue (or "PUF") Tax, and the Gas Revenue Tax that recognize pre- and post-payments relative to the start of the tax period.

**Q. By acquiescing in the foregoing list of issues, are you endorsing the logic behind the adjustments?**

**A.** No. The Companies have decided to accept the adjustments despite disagreements they may have with the logic and rationale behind certain of the adjustments.

**Q. Please explain.**

**A.** The Companies, for instance, believe that when an employee deposits a paycheck at a bank, all the funds are not immediately available to the employee. There is some float time associated with the check. The Companies concur with Staff that an independent analysis of payroll checks was not performed within their cash working capital/lead-lag studies and thus have agreed to remove float from the payroll expense lead-time estimates.

**Unnecessary Separate Revenue Lag for the PGA**

**Q. Does Staff agree with the Companies' use of a separate revenue lag for the PGA revenues?**

**A.** No. Staff states that "each customer receives only one bill per month, which includes PGA charges, as well as all other charges for gas service. Each customer only makes one payment for those bills, not a separate payment for the PGA portion. Therefore, there is no different lag to be considered for PGA revenue." (page 5, lines 99-103, ICC Staff Exhibit 3.0).

**Q. Do you agree with Staff?**

**A.** No, I do not. Even though the Companies receive only one payment for current month service from a customer, included in the payment are estimated PGA costs for the current month as well as true-up amounts from two months prior. Staff effectively acknowledges the need for a separate consideration of the PGA by noting on page 6, line 107, of ICC Staff Exhibit 3.0, that a two-month lag exists for the true-up of PGA costs. Thus, it is appropriate to consider the cash working capital impact of the PGA separately from other operating revenues in order to fully consider both the lag associated with recovery of current month gas costs as well as the lags associated with reconciliations and true-ups from two months prior.

**Improper Lags Included in the PGA Calculation**

**Q. Has Staff expressed concerns that improper lags are included in the PGA calculation?**

**A.** Yes. Staff states that the Companies mistakenly use a three-month lag for the true-up of PGA costs when, in fact, only a two-month lag exists.

**Q. How do you respond?**

**A.** My direct testimony recognizes that the PGA is designed to recover an estimate of gas costs for the current month and actual costs from two months prior. As stated clearly in the Companies' response to Staff data request CIPS-TEE-31, included in the actual cost true-up for two months prior are fairly minimal amounts from three months prior to the current month. As part of the revisions which I have included in this rebuttal testimony, I have excluded the amounts from three months prior. AmerenCIPS Exhibit No. 17.2 and AmerenUE Exhibit No. 17.2 reflect data from the Companies' PGA filings with the Commission to show the two-month true-up amounts that are used to dollar-weight the lag times associated with the reconciliation/true-up portion of the PGA.

**Q. Has the AG witness proposed an adjustment to the Company's cash working capital requirement?**

**A.** Yes. The AG witness has proposed a modification to the revenue lag assigned to PGA revenues. The AG witness recommends the use of the non-PGA revenue lag to calculate the cash working capital requirements associated with the entire amount of PGA related revenues at the Companies. The AG witness states that there may be temporary under- or over-recoveries of PGA revenues, but on balance they will not affect the recovery of purchased gas costs.

**Q. Do you agree with the AG witness' proposed adjustment?**

**A.** I agree, in part, with the proposed adjustment.

**Q. Please explain.**

**A.** The Company has two primary forms of revenues for its gas business: 1) non-PGA revenues (or base rate revenues) and 2) PGA revenues. The non-PGA revenues result from the application of the appropriate Company tariff rate to a customer's metered consumption.

The PGA revenue lag, on the other hand, is not as straightforward as the AG witness would suggest. While the PGA mechanism is designed to allow the Company full recovery of its prudently incurred gas costs, there are two lags inherent in the process of full recovery: a) a true-up lag, and b) a residual lag. The Company's monthly PGA filings with the Commission include an estimate of the current month's gas cost (Factor G), true-ups from two months prior (Factor A), and a Factor O which includes ordered under- and/or over-recoveries from the annual period prior. The three factors G, A and O apply to both the commodity charge as well as the demand charge components of the Company's PGA rate. The Factor A amount is derived by first computing the under- or over-recovery from two months prior to which any unrecovered balances from the previous PGA filing are added (shown as the unamortized Factor A amount on Schedule II, line 9 of the Companies' monthly PGA filings). To the extent that the Company amortizes recovery of line 9 amounts, the amortized portion slated for recovery in the current month is then termed the Factor A amount. Therefore, since the amounts shown on line 9 of Schedule II of both the commodity and demand charge reconciliations are investor funded until fully recovered by the Companies from their customers, the two-month lag should be applied to the 12-month total of these amounts. The two-month lag amounts and dollar-weighted lag time is shown as the PGA true-up lag in AmerenCIPS Exhibit No. 17.2 and AmerenUE Exhibit No. 17.2.

The dollar amounts associated with the residual lag shown in AmerenCIPS Exhibit No. 17.1 and AmerenUE Exhibit No. 17.1 are computed using the Factor G amounts (i.e., the estimate of the current month's gas cost and calculated as the total PGA revenue minus the amounts to which the two-month lag are applied). The residual lag is then combined, using dollar-weighting, with the PGA true-up lag to result in the weighted PGA revenue lag. The weighted PGA revenue lag is offset against the fuel expense lead-time to result in the fuel expense net lag used in the calculation of the cash working capital requirements associated with fuel costs as shown in AmerenCIPS Exhibit No. 17.1 and AmerenUE Exhibit No. 17.1.

**Q. How did you determine the amounts against which to apply the higher revenue lag?**

**A.** I reviewed the Company's PGA filings to determine the amount of over or under recoveries experienced by month during the test year. These over or under recoveries are routinely set forth on Commodity Gas Charge Schedule II, line 9 and Demand Gas Charge Schedule II, line 9 of the Company's PGA filings. AmerenCIPS Exhibit No. 17.2 and AmerenUE Exhibit No. 17.2 show the under and over recoveries, including uncollected balances from prior periods as filed by the Company with the Commission for the test year that were: a) used to determine the weighted revenue lag time, and b) used in the derivation of the cash working capital requirements for both Companies as shown in AmerenCIPS Exhibit No. 17.1 and AmerenUE Exhibit No. 17.1.

**Q. What conclusions regarding the PGA revenue lag can you draw based on your analyses of the Companies' PGA filings?**

**A.** The weighted PGA revenue lag is 60.79 days for AmerenCIPS and 60.98 days for AmerenUE. When dollar-weighted using the non-PGA revenue lag and the residual PGA revenues for the purpose of computing the net lag associated with fuel costs (see AmerenCIPS Exhibit No. 17.1 and AmerenUE Exhibit No. 17.1), the result is 54.28 days and 52.79 days for AmerenCIPS and AmerenUE, respectively (see AmerenCIPS Exhibit No. 17.2 and AmerenUE Exhibit No. 17.2). These dollar-weighted revenue lags are then applied to the expense leads on fuel costs in the cash working capital requirement analyses.

**Improper Inclusion of Fuel Costs**

**Q. Does Staff contend that your study has improperly included a lag for fuel costs?**

**A.** Yes. Staff contends that the revenue to pay for purchased gas is being realized from ratepayers in the same month that the gas is purchased. (page 6, lines 112-115, ICC Staff Exhibit 3.0). Thus, Staff recommends that the lag for fuel costs should be set at zero days. (page 6, line 111, ICC Staff Exhibit 3.0).

**Q. Do you agree with Staff on the issue of the lag on fuel costs?**

**A.** No. Consideration should be given to both the expense lead-times associated with the Companies' acquisition of gas supply as well as the lag time associated with the customer's payment for that gas. Staff fails to recognize that the Company does not receive payment from customers for current month gas deliveries until about 41.45 days after the gas is provided to them in the case of AmerenCIPS and 40.16 days in the case of AmerenUE. On the other hand, the Company pays its suppliers for the gas on average within 12 days of receipt of invoice or about 27 days, including service lead-time associated with gas supply. The Companies have accurately reflected the timing of both cash receipts and payments associated with gas costs in their cash working capital analyses. Therefore Staff's proposal to set the lag for fuel costs at zero days should be rejected.

**<u>Improper Inclusion of Non-Illinois Property</u>**

**Q. What is Staff's issue associated with the inclusion of non-Illinois property in your analysis?**

**A.** Staff states that this purported flaw affects the AmerenCIPS filing only, and that the Company has included taxes paid on property in states other than Illinois in its cash working capital analysis. Staff recommends that these out-of-state expenses should not be included in the calculation of the cash working capital requirement of AmerenCIPS (page 7, lines 129-133, ICC Staff Exhibit 3.0).

**Q. Do you agree with Staff that the Company should not include the cash working capital requirements associated with non-Illinois properties as part of its rate base?**

**A.** No. These are investments in storage fields that have been made by the Company outside the State of Illinois to serve customers of AmerenCIPS. Staff, in response to the Companies' data request NSK-15, agreed that the taxes associated with such property(ies) should be included in the Company's revenue requirement (see AmerenCIPS/UE Exhibit No. 17.1). It follows, therefore, that the expense lead-times associated with such tax payments should be considered in a cash working capital analysis. Thus, it is appropriate to include the cash working capital requirements associated with property taxes paid on non-Illinois properties as part of the Company's rate base.

## Mid-Point Theory

**Q. What is Staff's concern with your use of the mid-point theory?**

**A.** By observing that different dates have been used as the bases for measuring the expense lead-times associated with the ICC Gas Revenue (or "PUF") Tax, and the Gas Revenue Tax, Staff concludes that "The Company has not consistently applied the mid-point theory" (page 7, line 141, ICC Staff Exhibit 3.0).

**Q. Do you agree with Staff's characterization that "the Company is inconsistent with its definition of mid-point"?**

**A.** No. While Staff is correct that the Company has used different measurement dates (page 8, line 152, of ICC Staff Exhibit 3.0), the Company has been consistent in its use of the mid-point in its analysis as evidenced by its estimation of the lead-time associated with payroll, fuel expense, federal and state income taxes, federal and state unemployment taxes, and interest expense.

**Q. Why have the Companies used different measurement dates in their analyses?**

**A.** As stated in its response to Staff data request CIPS-TEE-058, the Company has used the beginning of the service period in most instances as the starting date against which an expense lead is measured. As further stated in the response, the invoice date is used where the date on which a good or service was provided is not readily available.

**Q. Have you made any changes to the cash working capital analyses that address Staff's issue of using the invoice date as the starting point for measuring the expense lead?**

**A.** The invoice date was only used as the basis for calculating the expense lead-time associated with operations and maintenance expenses. In the absence of a service date from the Companies' accounts payable systems and to account for some amount of service lead-time, I have added an additional 15.21 days (365/12/2) to the invoice processing lead-time to develop the expense lead-time associated with other operations and maintenance expenses. This addition represents the mid-point of the month prior to the Companies' receipt and payment of an invoice for goods or services provided to them, i.e., the measure of service lead-time. AmerenCIPS Exhibit No. 17.1 and AmerenUE Exhibit No. 17.1 show the impacts of including this additional lead-time on the Companies' cash working capital requirements.

**Q. Continuing with the issue of whether the mid-point theory has been inconsistently applied, what bases were used to estimate the lead-time associated with: a) The PUF Tax, and b) Gas Revenue Tax?**

**A.** The measurement date associated with each was selected and the lead-times estimated based on whether they were pass-through taxes or not. The PUF Tax and the Gas Revenue Tax were treated as pass-through taxes to which no mid-point method was applied.

**Q. Do you agree with Staff's characterization that the mid-point theory has not been applied correctly with regard to the PUF Tax?**

**A.** No. As mentioned previously, the mid-point method is not relevant in the instance of the PUF Tax which is a pass-through tax. However, as suggested by Staff, a revision has been made to recognize the pre-paid and post-paid lead-times relative to the beginning of the fiscal period as opposed to the end of the period. The impact on the overall cash working capital requirements of the Companies is shown in AmerenCIPS Exhibit No. 17.1 and AmerenUE Exhibit No. 17.1.

**Q. Do you agree with Staff's characterization that the mid-point theory has not been applied correctly with regard to the Gas Revenue Tax?**

**A.** No. The Gas Revenue Tax is a pass-through tax and thus does not lend itself to the use of a mid-point method. As Staff suggests however, a correction has been made to recognize that the expense lead-time should be measured from the beginning of the period to the date on which the tax was paid. As shown in AmerenCIPS Exhibit No. 17.1 and AmerenUE Exhibit No. 17.1, this results in a change in expense lead-times for both AmerenCIPS and AmerenUE and a change in both Companies' cash working capital requirements.

**Obligation Date Theory**

**Q. What is Staff's concern with the Companies' use of the Obligation Date Theory?**

**A.** The Companies define the expense lead-time as the time period between when a good or service is provided to the Companies and the time when such a good and/or service is paid for. Staff suggests that the Companies are inconsistent in how the expense lead-time for fuel expenses and other operation and maintenance expenses are considered in the cash working capital requirement analyses of the Companies.

**Q. How do you respond to Staff's concerns regarding the use of the Obligation Date Theory?**

**A.** The Company believes that an obligation has been incurred when a good or service has been provided. To the extent that the date on which the good or service was provided is known, such date was used to determine the lead-time associated with the good or service for purposes of the lead-lag study. If such date was not available, the invoice date was used to determine the lead-time.

**Q. Have you revised your analyses of the cash working capital requirements of the Companies as originally filed based on Staff's comments regarding the notion of obligation?**

**A.** Yes. I have added 15.21 days of service lead-time (365/12/2) to the invoice processing lead-time associated with other operations and maintenance expenses, thus presenting a conservative estimate of the cash working capital requirements of the Companies. With this change, the measurement of the expense lead-time associated with other operations and maintenance expenses is now consistent with the manner in which the fuel expense lead-time was derived in the original analyses of the Companies. The results of the revised analyses for the Companies are shown in AmerenCIPS Exhibit No. 17.1 and AmerenUE Exhibit No. 17.1.

**Lack of Recognition of Service Company Involvement with Cash Flow**

**Q. How does Staff characterize the issue of the involvement of the service company with cash flow?**

**A.** Staff states that under the Amended General Services Agreement, Ameren Services Company pays the bills and/or other obligations for AmerenCIPS and AmerenUE. Thus, the expense lead-time associated with pensions and benefits expenses, other operations and maintenance expenses, interest expenses, real estate taxes, invested capital taxes, and the PUF Tax, should be the same for both Companies.

**Q. Can there be a difference in lead-times between the Companies for payments made to providers of pensions and benefits services?**

**A.** Yes. Even though the Companies have revised the calculation of the expense lead-time associated with the group health – administration and group life components of pensions and benefits using a mid-point approach, it should be kept in mind that expense lead-times are calculated on a dollar-weighted basis. The Companies' response to Staff data request CIPS-TEE-069 demonstrates that the unweighted expense lead-times associated with pensions and benefits are comparable for both AmerenCIPS and AmerenUE. The response to Staff data request CIPS-TEE-069 further states that "The [weighted] lead-times are different on account of the dollar-weighting of the elements that were pooled together to derive an estimate of the lead-time associated with the composite category titled 'pensions and benefits'". (See AmerenCIPS/UE Exhibit No. 17.2). Finally, even Staff, in response to the Companies' data request NSK-18, agrees with the Companies that expense lead-times should be dollar-weighted prior to their consideration in the calculation of cash working capital requirements. (See AmerenCIPS/UE Exhibit No. 17.3).

**Q. Can there be a difference in lead-times between the Companies for payments related to other operations and maintenance services?**

**A.** Yes. As explained in response to Staff data request CIPS-TEE-068:

> There are two reasons why the lead-time for AmerenUE Other Operations and Maintenance expenses are different from that of AmerenCIPS. First, the relative size of the operations of the two Companies are different. Using the volume of invoices received, processed and paid as an indicator, UE as a company is a much larger operation than CIPS. The invoice processing operation at UE often involves a relatively more complex set of interactions between Accounts Payable and the Company's personnel responsible for authorizing payments to vendors for goods or services supplied. This complexity, which drives the difference in lead-times associated with other operations and maintenance expenses between UE and CIPS, is often driven by multiple factors including (and not limited to): 1) differences in the nature of the good or service provided by the vendor at UE compared with that at CIPS, 2) differences in the payment terms of the invoice from the vendor, and 3) to the extent that a contract between the Company and a vendor for the delivery of a particular good or service, differences in the payment terms included in such contract(s). Thus, the invoice processing time, used as a measure of the lead-time associated with other operations and maintenance expenses, is different for UE than for CIPS. Second, and as shown on CIPS WPB-5.2a-45-144 and UE WPB-5.2a-39-61, the float times, included in the derivation of lead-time on other operations and maintenance expenses, are different for the two Companies.

Thus, the weighted expense lead-time associated with other operations and maintenance expenses for AmerenUE is longer than that for AmerenCIPS.

**Q. Can the lead-times on interest expense payments by the two Companies be different?**

**A.** Yes. The driver of the lead-time on interest expense, regardless of whether the services company is making the payment or not, is when the interest payments are due. Since the outstanding bonds of AmerenCIPS have different payment dates than those of AmerenUE, one would expect the expense lead-times associated with the bonds to be different, regardless of whether the same service company makes the payments.

**Q. Should the expense lead-time associated with Real Estate Taxes be different by 168.34 days between the Companies?**

**A.** The Companies have made a correction to their original analyses to recognize: a) the application of the mid-point theory, and b) to exclude out-of-period payments made to taxing authorities outside the State of Illinois, when calculating the expense lead-times associated with real estate taxes. With the correction, the revised expense lead-time associated with real estate taxes for AmerenCIPS is 428.8 days and for AmerenUE is 405.83 days. The difference between the lead-times is now about 23 days compared with the 168.34 days as originally filed. In percentage terms, the difference is about 5%.

**Q. What is Staff's concern regarding the payments by the Companies on account of the Invested Capital Tax and the PUF Tax?**

**A.** In noting the Companies' response to Staff data request CIPS&UE-TEE-047, Staff recognizes that the differences between the Companies in expense lead-times associated with these two items were due to the overpayment of the amount due or payment of the total amount prior to the final due date. Based solely on this one observation, Staff labels the Companies as "inefficient" in terms of their cash management practices and recommends that these two items not be included in the computation of the cash working capital requirements of the Companies.

**Q. Do you agree with Staff's characterization?**

**A.** No. To the contrary, the Companies' approach to the payment of the taxes in question was efficient and cost-effective. To put Staff's issue pertaining to the PUF Tax in perspective, the allocated portion of the tax payment in question for AmerenUE gas operations amounted to $16,479 for the test year. While the Company was allowed to make quarterly estimated payments with a true-up, the Company determined that it was more appropriate to file the tax payment twice and eliminate the cost associated with preparing the additional two quarterly filings.

Staff's issue regarding AmerenCIPS' payments of the Invested Capital Tax is similarly unfounded. In contrast to Staff's understanding of when this tax is due as evidenced by their response to the Companies' data request NSK-6, the Company is required to make quarterly payments on the $15^{th}$ day of March, June, September and December, with a final true-up payment occurring on March $15^{th}$ of the year following the tax year. (See AmerenCIPS/UE Exhibit No. 17.4 for Staff's response to NSK6).

Therefore, the Company is effectively pre-paying a portion of the tax and post-paying the remainder during the year. The true-up payment, which reconciles the sum of the estimated payments made during the year with what the Company owes, can be either positive or negative. During the test year, AmerenCIPS made estimated payments which ultimately exceeded its total liability. A refund of the overpayment was requested via the true-up filing.

This situation is no different than that of an individual taxpayer who makes quarterly tax payments. Before April 15th of the following year, the individual prepares his/her tax filings and makes a final payment or receives a refund. The receipt of a refund does not mean that the individual was "inefficient" when quarterly tax payments were made.

Based upon the above explanations, the Companies believe that Staff has inappropriately labeled Ameren Service Company's cash management practices as "inefficient" without performing the appropriate field work to fully understand the context and details supporting the apparent disparity between the expense lead-times associated with these two tax items for AmerenCIPS and AmerenUE. Therefore, it is appropriate to include these items in the Companies' cash working capital analyses and Staff's recommendation should be rejected.

**Materials and Supplies**

**Q. Has Staff made an adjustment to proposed materials and supplies inventories in rate base?**

**A.** Yes. Staff recommends that the Companies' proposed materials and supplies inventory be reduced by the calculated amount of accounts payable related to the inventory. For AmerenCIPS, the effect of Staff's adjustment is a decrease of $318,000 in rate base and for AmerenUE the effect is a decrease of $11,000 in rate base.

**Q. On what basis has Staff made an accounts payable adjustment to materials and supplies inventories?**

**A.** On page 12, lines 239-240, of ICC Staff Exhibit 3.0, Staff states that "An account payable represents "vendor financing" of purchased merchandise until it has been paid in full." On this basis, Staff recommends that the materials and supplies inventory included as part of the Companies' rate base be reduced by the amount of accounts payable related to the inventory.

**Q. Do you agree with Staff's adjustment relating to the materials and supplies inventories?**

**A.** No. On page 4, lines 75-76 of ICC Staff Exhibit 3.0, Staff defines the purpose of a lead-lag study as one that is "used to determine the amount of cash that is necessary on a day-to-day basis in order for a company to provide service to the ratepayers." However, on page 11, line 225, of ICC Staff Exhibit 3.0, Staff recommends that a zero cash working capital be included in rate base. A zero cash working capital amount implies that the Company does not need any cash on a day-to-day basis to provide service to its customers because it is in perfect equilibrium, i.e., cash inflows to the Company perfectly equal cash outflows to its vendors and suppliers. There are at least two problems with this recommendation. First, one would be hard pressed to identify any ongoing business entity that does not need any cash on a day-to-day basis to provide service to its customers. Second, even if one were to assume that both the Companies are in perfect equilibrium, no accounts payable adjustment to the Companies' materials and supplies inventories would be necessary since "vendor financing" of the Companies' materials and supplies inventories would be exactly offset by a customer "I owe you" to the Companies.

**Q. What is your recommendation regarding Staff's adjustment to the Company's proposed materials and supplies inventory?**

**A.** For reasons described earlier, I recommend that the Commission accept Staff's proposed adjustment regarding the accounts payable adjustment to the Companies' materials and supplies inventories <u>if and only if</u> the Commission also approves an appropriate amount of cash working capital which accurately reflects the amount of cash that is necessary on a day-to-day basis in order for the Companies to provide service to the customers. This is consistent with the Commission's treatment of both cash working capital requirements and materials and supplies inventories in Illinois Power Company's two recent Delivery Service Tariff Proceedings, Docket Nos. 99-0120/99-0134 (cons.) and 01-0432.

**Q. Provide a summary of key results from your revised analyses for the Companies.**

**A.** After reflecting the acceptance of seven of the ten of Staff's so called "flaws" in the Companies' cash working capital/lead-lag study, all the revisions discussed herein taken together result in a cash working capital requirement for AmerenCIPS of $7.386 million and $0.840 million for AmerenUE, as shown in AmerenCIPS Exhibit No. 17.1 and AmerenUE Exhibit No. 17.1. The revisions represent reductions from the

$8.558 million for AmerenCIPS and $0.928 million for AmerenUE as originally filed by the Companies. The remaining three of Staff's criticisms have been fully rebutted by the Companies. The revised cash working capital amounts together with the adjustment associated with materials and supplies inventories are shown in AmerenCIPS Exhibit No. 14.6 and AmerenUE Exhibit No. 14.6 of Company witness Thomas G. Opich.

**Q. Does this conclude your rebuttal testimony?**

**A.** Yes, it does.